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FISCAL IMPACT STATEMENT

LS 6981

BILL NUMBER: HB 1192

NOTE PREPARED: Jan 1, 2006

BILL AMENDED:

SUBJECT: Employee Training Tax Credits and Programs.

FIRST AUTHOR: Rep. Stutzman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides a tax credit for employee training expenses incurred by an employer under a program certified by the Department of Workforce Development. It requires the amount of any federal tax deduction allowed for employee training expenses to be added back to a taxpayer's Adjusted Gross Income if the training expenses credit is claimed. The bill establishes the Workforce Skill Advancement Project and requires individuals who apply for Unemployment Insurance to participate in the Project. The bill also makes an appropriation.

Effective Date: July 1, 2006; January 1, 2007.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional administrative expenses related to changing tax forms, instructions, and computer programs to accommodate the new tax credit. The DOR will also have to make determinations as to qualified training expenses by programs certified for the new tax credit by Department of Workforce Development (DWD). The DOR's current level of resources should be sufficient to implement this change.

Department of Workforce Development (DWD): The bill establishes two new programs to be administered by the DWD: (1) the Employee Training Credit Program; and (2) Workforce Skill Advancement Project.

The bill requires the DWD to administer the Employee Training Credit Program. The bill requires the DWD to certify employee training programs for the tax credit, and to monitor the amount of tax credits approved. The bill also requires the DWD to annually submit a report to the DOR on the employee training programs certified for the tax credit. The bill appropriates \$500,000 from the state General Fund to the DWD in FY 2007

to be used to administer the tax credit program. The bill also allows the DWD to impose a fee on tax credit recipients to cover the administrative costs of the tax credit program. The bill requires the fee revenue to be deposited in the DWD general fund.

The bill requires the DWD to administer the Workforce Skill Advancement Project. The Project is funded with set asides from existing funds available from the following sources: (1) the Wagner-Peyser Act, (2) the Workforce Investment Act, and (3) the Skills 2016 Training Fund. The bill requires the General Assembly to determine the amount of funding from each source. There are no data to indicate the cost of the Project. The FY 2005 ending balance in the Skills 2016 Training Fund was about \$42.6 M, with the balance as of December 31, 2005, totaling about \$38.3 M. The FY 2005 ending balance in the Workforce Investment Act Fund was about \$1.05 M, with the balance as of December 31, 2005, totaling about \$961,000. The amount of funds that may be available relating to the Wagner-Peyser Act is unknown.

Under the bill, an individual applying for unemployment insurance must participate in a program that includes key skills assessment and a skill remediation component either in the individual's current occupation or in another occupation. Regional boards along with local elected officials are required to develop a plan of short-term training options and placement assistance for applicants for unemployment insurance. Basic reading, writing, and math skills, certified nursing assistant training, and computer skills are among the list of short-term training areas. The regional boards also may exempt an individual from the requirements of the Project if it poses a hardship to the individual; and the boards may allow a temporarily unemployed individual to participate in the Project. The bill requires the regional boards to annually submit program status reports to the DWD. The bill also requires the DWD to compile these reports and submit them to the General Assembly.

Explanation of State Revenues: *Summary:* This bill establishes the nonrefundable Employee Training Tax Credit which could potentially reduce state revenue from the Adjusted Gross Income (AGI) Tax, the Sales and Use Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The tax credit is effective January 1, 2007, but the bill sunsets the tax credit December 31, 2008. It also limits the total credits allowed to \$18 M each fiscal year during this period. Potentially, the DWD could certify \$18 M of credits in each of:

1. FY 2007 (applicable to tax year 2007 training expenses);
2. FY 2008 (applicable to tax year 2007 and/or tax year 2008 training expenses); and
3. FY 2009 (applicable to tax year 2008 training expenses).

The revenue loss from the tax credit could potentially begin in FY 2007, if the DWD certifies credits early in 2007 and credit recipients adjust quarterly estimated payments.

Background: The bill provides a nonrefundable tax credit for qualified employee training expenses incurred during tax year 2007 and tax year 2008. The tax credit may be claimed by individual and corporate taxpayers, including shareholders, partners, or members of a pass through entity. Eligible training expenses include tuition, fees, wages paid to an instructor, materials, supplies, textbooks, and rental fees for training facilities and equipment. The taxpayer must submit to the Department of State Revenue certification of the training program by the DWD. The tax credit is limited to 40% of the taxpayer's qualified employee training expenses and may not exceed the lesser of: (1) 110% of the taxpayer's estimated qualified employee training expenses for that tax year as certified by the DWD; (2) \$100,000; or (3) the taxpayer's state tax liability.

If the taxpayer's qualified employee training expenses certified by the DWD for the tax year exceed the credit amount computed under the criteria listed above in (1) to (3) and the taxpayer has an operating loss for the tax

year, the excess credit amount may be carried forward to subsequent tax years. The tax credit is nonrefundable, and a taxpayer may not carry back excess credit amounts. The maximum credits allowed in any fiscal year may not exceed \$18 M. Since the credit is effective beginning in tax year 2007, the fiscal impact may begin in FY 2007 if DWD certifies credits early in 2007 and taxpayer's adjust quarterly estimated payments.

Revenue from the corporate AGI tax, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Add-Back of Federal Deduction for Training Expenses: The bill also provides that any amount deducted for employee training expenses under the Internal Revenue Code on a taxpayer's federal tax return must be added back to Indiana AGI. However, this add-back only applies if the taxpayer claims any amount of the Employee Training Credit in a given tax year. The add-back would offset some of the revenue loss associated with the credit, however, the offset presumably would be minimal. Every \$100 in creditable training expenses added back to taxable income would result in additional tax liability of \$3.40 for an individual filer and \$8.50 for a corporate filer. Thus, the net employee training expense credit to the individual taxpayer would be \$96.60, and to the corporate taxpayer would be \$91.50.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the training expense add-back proposed in the bill would serve to increase taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience a minimal increase in revenue from these taxes.

State Agencies Affected: Department of State Revenue; Department of Workforce Development.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: State Auditor's database.